A Review of Privatization of Water and Sanitation Systems: The Case of Greater Buenos Aires

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Draft Discussion Paper
Prepared for Conference on Global Cities: Water, Infrastructure and Environment
Santa Barbara, CA
16-19 May 2005

Introduction

The first part of this draft discussion paper starts with a theoretical formulation of the relationship between globalization and the privatization of water and other public utilities in Latin America and the Caribbean (LAC). The second part of the paper reviews the evidence associated with the privatization of water and sanitation systems and resources in Buenos Aires and Monte Verde (***note***: *not discussed in this paper as data is still being collected*), which demonstrate a the abject failure of private water companies to deliver the promised human development and economic benefits, while generating deep political resistance, and concludes with a discussion about the inherent limits of water privatization and the current neo-liberal model of state restructuring and economic liberalization.

Theorizing Globalization and the Privatization of Water Resources in Latin America and the Caribbean

Today, nearly one person in five cannot access safe water and two in five lack even basic sanitation services. A growing number of these people are living in the mega- and rapidly emerging hypercities of the developing world (Davis 2004).[1] In LAC alone, more than a quarter of a billion people lack access to potable water and sanitation services. The escalating "water wars" (Shiva 2002)[2] over ownership and control of this strategic resource is "just one of the several unexpected tracks down which a neo-liberal world order has shunted millennial urbanization" (Davis 2004: 10).

Despite, or perhaps because of, heightened awareness of the centrality of potable water and sanitation services to human health and development, and the growing unease about the danger of biological and political meltdown due to the supernova-like expansion of primary and secondary Third

[1] Mike Davis, "Planet of Slums: The Third World's Megacities." *New Left Review* 26, March-April 2004.
[2] Vandana Shiva. *Water Wars: Privatization, Pollution and Profit*. South End Press. 2002

World cities,[3] the problem of the ownership and control of water resources has bubbled to the top of the political agenda at all geographical scales, as witnessed by the adoption of the U.N. Millennium Development Goals, while being concurrently subjected to neo-liberal market rationality and governmentality which favor new forms of globally organized capital, power and expertise above and below the 'skin' or 'casing' of existing nation states and local municipalities (Sassen 2001).[4] Peter Spillett, a senior executive with Thames Water, a leading investor in LAC's water resources demonstrates this market rationality well: "There is huge growth potential. There will be wars fought over water in the future. It's a limited, precious resources so the growth market is always going to be there" (Interview with Bob Carty, CBC Radio, February 3, 2003). Indeed, these two dynamics are mutually reinforcing. As Swyngedouw (n.d) notes:

> While environmentalists keep on insisting that water is a scarce resource and finite good and therefore needs careful handling, the private water sector and governments at all geographical scales embrace this discourse of 'scarcity.' A market economy of course requires scarcity to function. If need be, 'scarcity' will be effectively 'produced,' socially engineered. … An environmental ideology that persists in representing water as inherently 'scarce' invariably nurtures a commodifying and privatizing logic.[5]

Water resources, together with other "global public goods" (Kaul 2003 *et al*),[6] are swiftly becoming part of new global accumulation strategies thinly disguised as global human development and poverty-reduction imperatives. Under pressure from neo-liberal globalization, the growing private provision of water involves the transfer of water resources, infrastructure, and management from nationally owned and regulated public sectors to globally organized and controlled private companies.

Since the early to mid 1990s, the privatization of water supply and sanitation systems has become a key modality of state restructuring in a number of developing and transition economies in LAC. According to Eric Swyngedouw: "water has become one of the central testing grounds for the implementation of global and national neo-liberal policies." In other words, the growing privatization of water and sanitation systems in LAC in the 1990s has inserted the flow of water into the global circulation and exchange of capital and has created a new geometry of power and control. The growing battle over ownership and control of water resources is a paradigmatic example of the classical late-Fordist narrative about the systematic destruction of the collective institutions which may impede the logic of the market, the erosion communal rights, the transformation of public utility *users* into public utility *consumers* who are compelled to pay for water

[3] The urban boom in Third World cities contradicts orthodox economic explanations which predicted that the negative feedback of urban recession would slow or even reverse migration from the countryside. Part of the secret, of course, was that the IMF and now the WTO enforced policies of agricultural deregulation and 'de-villagization' which accelerated the exodus of surplus rural labor to urban slums even as cities ceased to be growth machines.

[4] Saskia Sassen. *Cities in a World Economy*. 2nd Ed. Fine Forge Press. 2000. The WTO, IMF and World Bank have identified water companies, usually foreign ones, and NGOs, once again usually foreign ones, as legitimate providers of services and infrastructure. The Bank's range of "Social Funds" underwrite a substantial and still growing portfolio of "Community-Driven Development" (CDD) programs, which usually involve small-scale private and/or NGO service providers even though the Bank has acknowledged that the poor track record of these entities is due in part to their disengagement from national and local governments in developing and transition economies. See *World Bank Operations Evaluating Department*, "Social Funds: A Review of World Bank Experience." Report No. 23668, February 12, 2002: 37.

[5] Erik Swyngedouw, *The Water Mandarins: Turning Water into Global Money*. Unpublished paper. School of Geography and the Environment. Oxford University, UK. No date.

[I] Inge Kaul, Pedro Conceicao, Katell Le Goulvent and Ronald U. Mendoza. *Providing Global Public Goods: Managing Globalization*. Oxford University Press. 2003.

services rather than being citizens who are entitled to access essential services, and the privatization of nominally democratic systems of administrative and political control which regulate water.[7]

Because of the desperate condition of water and sanitation infrastructure in developing and transition economies, the advocates of privatization in LAC, ranging from international financial institutions (IFI)[8], bilateral agencies,[9] OECD country governments,[10] transnational water corporations[11] (TNC), professional water consultants and subcontractors, think-tanks, and scholars earmarked this sector as a "frontier" private investment opportunity and pressured third world governments to private these assets. Their public justification was that that the private governance of water would stimulate competition which in turn would enhance operational and institutional efficiencies, enable the material expansion and technological modernization of water and sanitation services, raise the necessary investment capital, and relieve LAC governments from deepening economic and financial crises. The ideologues of water and sanitation privatization emphasized the long-term macro-social benefits, namely, to extend the supply of water and sanitation systems in order to increase population coverage, to expand sewage treatment in order to reduce water pollution and public health hazards, and to provide better quality of service. The secondary objectives are to ensure higher operating efficiency and to finance the system without public subsidies or guarantees.[12]

Meanwhile, the largest financial intermediaries of water projects in developing and transition economies, the World Bank, IMF, and the various multilateral development banks (MDBs) enforced the macro-economic dimensions of water privatization by means of three policy approaches: (1) by imposing water privatization as a condition of loans and debt relief; (2) by financing water transnational corporations at the expense of public entities; and (3) by pressuring governments to sell water utilities as a way to reduce 'national debt.' The real intent of these strategies was cloaked in the legitimizing discourses of humanitarian assistance and poverty reduction in the Global South. Hence, according to Chris Neal, the external affairs manager for Latin America at the World Bank in a radio interview on CBC (October 9, 2002):

> The World Bank is looking for solutions to expand water coverage to the poor. The purpose of the World Bank is to fight poverty and in the case of the developing countries, of municipalities where there is limited access to money to expand coverage, those require major investments. The money has to come from somewhere. In many cases, the private sector is the only place where the money can be found.

[7] Most World Bank project agreements, including water projects, are considered to be "intellectual property" and, therefore, communities and public institutions affected by these agreements have no access to the terms of these projects.

[8] These include the IMF, whose structural adjustment policies require the privatization of public assets, including water; the World Bank, which reserves the right to require privatization as a loan conditionality to governments, or may supply finance, through the International Finance Corporation (IFC), the branch of the WB which invests only in the private sector; and the Inter-Americas Development Bank (IADB), whose loans, technical expertise, and professional services are often biased in favor of privatization; the European Investment Bank (IEB), an EU parastatal established to finance developments in 'emerging' markets of interest to EU member states and corporations. The IADB is now the primary source of multilateral funds for the region, as well as an important catalyst of additional resources.

[9] The Canadian International Development Agency (CIDA) and the U.K. Department for International Development (DFID).

[10] In order of importance are France, U.K., Germany, Spain, Portugal, and Italy. The only Latin American country that has a foothold in this multibillion dollar market is Argentina, through a relatively small company known as Latin Aguas.

[11] The privatized market for water and sanitation services in LAC, like the rest of the world, is firmly under the control of two French multinationals, Suez and Vivendi. These two companies control two-thirds of the world's water market with the rest of the market being divided among significantly smaller firms, including SAUR (French), Thames (German), Anglian (UK), and IWL (Bechtel-U.S.-Italian).

[12] Idelovitch and Ringskog (1995: 1)

Of course, according to the prevailing neo-liberal discourse, the human development benefits of PSI in delivering the expected efficiencies and social benefits are contingent upon the introduction of appropriate financial and other public inducements to lure private investors and to minimize risks[13] and to maximize returns on investment to water companies, as well as the need for comprehensive transfer of water governance from the public to private sector. While state incentives and public subsidies are justified as key prerequisites to attract and unleash the efficiencies of the private sector, the reform of legal, regulatory and political processes, for instance, through the introduction of constitutional amendments, and the adoption of private sector principles of business secrecy, the absence of stakeholder and community participation and opaque executive decision-making procedures, are considered as equally important to create optimum investment conditions for water companies, to minimize their burden of costs, and to maximize their profit-seeking behavior. Thus, despite the anti-statist rhetoric of the advocates of water privatization, the state at all geographical scales has entrenched its position as the primary condition of growth *sui generis* for privatized systems of water and sanitation services and from this perspective has become captive to neo-liberal market forces.[14]

Empirical Evidence: Water and Sanitation Systems in Greater Buenos Aires

The Case of Argentina and Greater Buenos Aires: It can be argued that the privatization of public utility systems and resources in Argentina which took off in the early 1990s was in many ways foreshadowed by more than a decade of ruinous political, economic and functional mismanagement the state. Much has already been written about the key roles of the World Bank and IMF throughout the 1980s in driving Argentina deeper into financial and economic ruin and in the process reducing millions of Argentines to penury. By the beginning of the 1990s, the country was staggering from hyperinflation and massive capital flight, unemployment inching close to 25% and a rate of inequality of close to 20% was twice as high as in early 1970s. The traumatic impact of the crisis opened a window of opportunity to impose drastic macro-economic reforms in accordance with the policy prescriptions of the U.S. Treasury, the IMF, the World Bank, and a broad range of privatization experts and domestic and foreign media. They all pointed to excessive public spending and growing fiscal deficits as the root causes of the crisis. At its peak, the consolidated public sector of Argentina, which included over 100 state enterprises, accounted for almost 40% of the country's GDP. By 1990, the combined operating deficit of the largest state enterprises was over US$55 million annually, and state-owned enterprises had accumulated close to US$15 billion of external debt. After assuming office in 1989, the two-term administration of Carlos Saul Menem skillfully manipulated public awareness that Argentina was on the brink of complete collapse through hyperinflation and the burdens of

[13] In the wake of Argentina's economic and financial crises in the 1990s, more specifically after the peso/dollar convertibility crisis in 2001, it has become standard operating procedure among global water companies investing in developing and transition economies to demand guaranteed financing in the form of risk insurance from IFIs as a means to insulate their shareholders from unexpected fluctuations in interest rate, exchange rate, and inflation changes.

[14] The deployment of privatization schemes in the water sectors of LAC countries is an excellent example of Haggard and Kaufman's (1992: 25) argument that "for governments to reduce their role in the economy and expand the play of market forces, the state itself must be strengthened," as well as Evan's (1995: 27) assertion that "when liberalization, privatization, and other policies associated with neo-liberalism were implemented, it was in fact state managers who formed the core of the 'change teams' that made change possible."

foreign debt to present the privatization as a panacea for the country's woes. A popular slogan of those years was that: "shrinking the state strengthens the nation."

The privatization and commodification agenda of the IMF and World Bank could not have found a more willing partner than the administration of Menem. In a speech to a trade delegation from the Confederation of British Industry, Menem famously declared: "For constitutional reasons, we did not privatize the state. But everything else that we could we did."[15] And so began the ill-fated liaison between Argentina's political and administrative elites and the Bretton Woods institutions (i.e., the IMF and World Bank) which quickly earned it the reputation of Latin America's star pupil.

The emblematic symbol of Argentina's decision to privatize public assets was the establishment of the Currency Board in 1991 which pegged the value of the Argentine peso to the U.S. dollar.[16] This convertibility of the peso was guaranteed by a law passed in the Argentine Congress called the Convertibility Law in the same year. The goal of the convertibility law was to reassure prospective foreign investors in Argentina's public utilities that any modifications could only be secured by another law which would be extremely difficult. Convertibility between the Argentine peso and US dollar put an almost immediate end to hyperinflation, Argentina's debt became attractive to "emerging market" investors and economic growth resumed after a decade of stagnation – GDP grew by 10% in 1992 and nearly 6% in 1993 and 1994.

In this climate of renewed fiscal stability and economic recovery, schemes were quickly hatched to privatize "frontier" public sectors like urban water, gas and telecommunications systems by 1992.[17] Laws 23696 (state of emergency) and 23697 (economic emergency) authorized the privatization process. In the immediate aftermath of these laws, US$23 billion flooded into Argentina from actual and anticipated public sector sell-offs plus billions more in foreign direct investment, promising operational efficiency and modernization of public utilities in return for the creative destruction of what remained of the public sector. In this new policy conjuncture, "Buenos Aires was to be the flagship operation of Third-World water privatization."[18]

Buenos Aires and Obras Sanitarias de la Nación (OSN): The generally deplorable conditions of the water and sanitation systems across Metropolitan Buenos Aires made it an enticing target for privatization. As a matter of fact, OSN exemplified many of the weaknesses of the Argentine public sector: operational inefficiencies, weak financial and commercial management, high unaccounted-for water loss, lack of capital funds, overstaffing and failure to address growing environmental pollution problems. The government justified the privatization of *Obras Sanitarias de la Nación* (OSN), the city's water and sanitation authority, as a fiscal

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[15] Ivan Briscoe, "Argentina: How Politicians Survive While People Starve." *openDemocracy*. March 17, 2003.

[16] This mechanism ensured that each peso in circulation was back by a dollar in reserve.

[17] Between 1991 and 1999, the windfall from the privatization of state assets generated incredible fiscal revenues for the Argentine government – US$49 billion surpassed only by Brazil which saw profits of US$71 billion. Some $23 billion of this amount was due to public-sector sell-offs and billions more in foreign direct investment,

[18] Tony Clarke and Maude Barlow, "Water Wars." Polaris Institute. December 4, 2004: 2. By this time, both the World Bank and the IADB had already been involved in Argentina's water sector for several years. Through its Public Enterprise Adjustment Loans (PERAL) and Public Enterprise Reforms Execution Loan (PEREL), the WB supported public sector reforms, including divestiture of public enterprises. The IADB provided "technical" analysis to the Alfonsín and Menem governments regarding options for privatization – management contract, a lease, build-operate-own-transfer (BOOT), joint ownership, outright sale, or a concession.

and anti-inflationary strategy. The concession of water and sanitation services performed by OSN was enacted through Decree 2074/90 issued by Menem in early 1991 and a Technical Commission was created to establish the terms of OSN's sale to a private operator.[19]

By the time of the final privatization act in May 1993, OSN serviced 99% of the 3 million residents of Buenos Aires City, but only 55% of the suburban population of 6 million inhabitants. OSN maintained more than 1.2 million domestic, commercial and industrial water connections over an area of about 500 km_. The sanitation services covered a smaller area of 400km_ and served a total urban and suburban population of more than 700,000 domestic, commercial and industrial sewer connections. Sewerage services were provided to 99% of Buenos Aires City's residents, but to only 36% of the suburban areas. However, at the moment of privatization, only 60% of the city's households were estimated to be connected for water supply and about 40% for sewerage, leaving 4 to 5 million residents without adequate water and sanitation facilities.

To make OSN more attractive to potential bidders,[20] the government raised water and sanitation rates several times. The average rate went up by 25% in February 1991 and another 29% two months later. Rates increased by another 18% in April 1992 and were quickly followed by another 21%. Shortly before the actual privatization transaction, the rate rose an additional 8%. Thus, all in all, during the last 26 months of OSN management, water and sanitation tariffs (plus taxes) paid by customers increased by 205.49% or by 174.15% if value added taxes are not taken into account. In the meantime, since services did not keep pace with tariff increases, there was an inflation of expectation among the public about the benefits of privatization over public management.

At the point of privatization in 1993, OSN moved from being a state-managed water and sanitation monopoly to being a private one in charge of the entire Metropolitan Buenos Aires. The concession was awarded to the bidder meeting the concession's goals at the lowest tariff level. Aguas Argentinas SA (AASA) was selected the winner because it reflected the lowers operational costs.[21] Through PPP (Program for Shared Ownership), privatization involved the incorporation of the old workers' union under OSN into the new company. The program gave workers a 10% of AASA. According to a consultative report for the IADB, "allocating 10% of shares to workers through the Program of Shared Ownership was intended to

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[19] The privatization of OSN was promoted through a targeted marketing campaign in Europe with the support of the UNDP and WB 'Marketing the Argentine Privatization' program.' Promotional materials prepared by the consultants, Sir William Halcrow from the UK, the French French firm Banque Paribas and the Argentine firm Capital Markets SA, focused on the potential profitability of the operations, the security of Buenos Aires and the prospects for expansion.

[20] The final bidders for OSN were Aguas Argentinas SA, led by Lyonnaise-des-Eaux-Dumez of France; Aguas de Buenos Aires, led by Thames Water PLC of England; Canal del Plata, led by Isabel II of Spain; and North West Water International also of England. Canal del Plata was later disqualified as an "unrealistic investment plan" (Shaikh 1996: 169).

[21] The AASA consortium was composed of Lyonnaise de Eaux-Dumez DA; Sociedad Comercial del Plata SA as it majority shareholder; Sociedad General de Aguas de Barcelona SA; Mueller SA; Banco de Galicia y Buenos Aires SA; Compagnie Général des Eaux AA; Anglian Water PLC. As a result of subsequent share transfers, the current ownership of AASA is as follows: Suez remains the leading shareholder with 39.93% of the company; it's also the concession's operator; Aguas de Barcelona (AGBAR) 25.01%; Banco de Galicia y Buenos Aires (8.26%); Vivendi (7.55%); International Financial Corporation (IFC) 5%; Anglian Water PLC (4.25%); PPP (Programa de Propiedad Participativa, Program of Shared Ownership) 10%. PPP affords participation as shareholders to AASA workers which includes appointing one representative on AASA's board.

'buy' the consent of former OSN workers for the concession and has been a common practice in other privatizations undertaken by the federal government."[22]

Expansion of services: Privatization brought about an improvement in drinking water provision, but failed consistently to match the contract's goals with regard to sewerage treatment and related environmental issues.[23] While there is usually a time lag in matching investment goals, performance has been particularly unsatisfactory with regard to expansion goals. Despite investment loans from the IFC of more than US$911 million between 1993 and 1997, the city's traditional sewerage structure remains basically unchanged, with sewerage effluents of over 5 million residents being dumped into the River Plate. Furthermore, the serviced population is larger in proportional terms in the more effluent Buenos Aires City than in the municipalities of de Buenos Aires, or Greater Buenos Aires.[24] Yet, these areas require the highest investment efforts in order to expand services and they are also the areas with the highest indices of poverty and social vulnerability – and accordingly less interesting for a profit-driven full-cost recovery company like AASA whose income derives exclusively from bills charged to customers. As a Biwater executive explained in another context about the expansion of basic water and sanitation systems to the poor: "From a social point of view, these kinds of projects are viable, but unfortunately from a private sector point of view they are not."[25]

Quality of services: The quality of the water has also increased for urban neighborhoods already covered by AASA's water and sanitations network which it inherited from OSN. Nevertheless, problems and deficiencies persist in neighborhoods in Metro Buenos Aires with regard to the detection of various pollutants in drinking water beyond the levels admitted by health norms and the concession's contract.[26] Water loss in the network has also become a protracted political and judicial issue between ETOSS and AASA with the former refusing to release detailed information about the extent of the problem for fear that it might be sued by consumers associations and the municipalities of Metro Buenos Aires. AASA has shown utter contempt for public protests about the negative health impacts of unsafe drinking water and poor sanitation management in the poorer neighborhoods of Metro Buenos Aires.

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[22] Artana *et al* 1999: 211.

[23] Water companies like AASA which work on a short- to medium-term full cost recovery basis, are loathe to invest in sewer and water treatment plants and infrastructure because they represent large capital investments that require many years to recover.

[24] Like water companies in other parts of the developing world, AASA has been publicly blunt about the prospects of bring these services to the Buenos Aires's poor. The reason is obvious: poor people represent low profits and high risks, both economic and political.

[25] This executive was referring to a failed contract negotiation in Zimbabwe in 1999. Cited in Kate Bayliss, "Water Privatization in Sub-Saharan Africa: Progress, Problems and Policy Implications." Presented at Development Studies Association Annual Conference, University of Greenwich, November 2002.

[26] It is a matter of open controversy between the public health authorities, consumer associations and municipalities, on the one hand, and AASA and the Argentine federal government, on the other, as to the contractual responsibilities of the concession to build more plants for primary treatment of sewerage and water waste water. The latter point to the unexpected population growth of suburban neighborhoods because of unplanned internal migrations, increasing urban and suburban poverty, shifts in land-use through an accelerated process of spontaneous urbanization of former rural areas as major contributory factors to this problem.

Attention to customer concerns and delivering of information: AASA has established a fairly efficient system for dealing with its customer concerns demands or complaints, but it has proved much more efficient in those settlements of demands that have no impact upon its profit margins than in those that do (ETOSS 2003). Low interest in addressing the public's concerns about services coverage and quality has led to persistent disagreements with regard to the way critical information has to be communicated. The company's relationship to ETOSS with regard to regulatory provisions and mandates is marked by protracted chicanery. Its monopolistic position affords AASA unilateral control over information and the way the company chooses to define information as 'proprietary' makes it inaccessible to the public demands and even ETOSS. This issue has led to confrontations between water users and the poor, on the one hand, and the company and Argentine state, on the other.

Economic-financial performance of the AASA concession: An early tension arose between the concession's water and sanitation goals and its economic-financial goals, with priority being given to the latter. Repeated goal revisions followed by new tariff hikes in order to increase AASA's billing have been standard procedures appealed to by both the Argentine government and the AASA to assure the latter's profitability with virtual carte blanche *vis-à-vis* effective investment or operative costs.

In the wake of the convertibility crisis between 2000 and 2002, AASA has become a chronically indebted company, with about one third of its net billing going to network rehabilitation and renewal investments, on the one hand, and debt interest repayments, on the other. Infrastructural investment aimed at sanitation projects and expansion of the network to Metro Buenos Aires was supposed to have been funded through AASA and its main stockholders' ability to attract fresh money from the international money markets. However, unaccomplished investment goals, together with AASA's reluctance to share information with the regulatory agency with regard to its debt burden has given rise to serious allegations that debt-related payments were being used to mask dividend returns to stockholders. Other serious charges that have been leveled at the company is that it was involved in financial speculation by taking advantage of the differentials in international and domestic interest rates during the Peso Convertibility Regime, which operated as an exchange rate insurance, or in any case indulging in financial dealings alien to the concession's goals and AASA's contractual obligations.

AASA's reluctance to appeal to public bids or to other accountable procedures in order to select the contractor companies which would effectively conduct service and expansion works, in addition to the company's reticence in sharing information about firms supplying inputs for investment and maintenance, have contributed to the lack of public transparency of the concession's performance, thus fueling allegations of artificial cost increases in order to inflate the company's operating budget, manipulation of administrative costs, restoring to transfer prices to the benefit of sister companies, etc.[27] While AASA has systemically denied these allegations, its reluctance to come clean about these issues has eventually contributed to an environment of public distrust and growing hostility towards AASA, the Argentine government, and even ETOSS.[28]

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[27] Daniel Azpiazu (2002) *Las privatizaciones en Argentina*. Buenos Aires: CIEPP/Fundación OSDE.
[28] See ETOSS (2003) *Informe sobre el grado de cumplimiento alcanzado por el contrato de concesión de Aguas Argentinas SA*. Buenos Aires: ETOSS, August 15.

Regulatory Authority of ETOSS over AASA: Consumer associations, as well as public opinion in general, have been highly critical of the way ETOSS has performed its control and regulatory responsibilities. ETOSS has been blamed for excessive tolerance for AASA's repeated contractual violations, its own lack of independent technical resources and expertise, as well as systematically lagging behind AASA's failures instead of preempting them. While ETOSS's *modus operandi* was narrowly defined by the Argentine government's overall regulatory strategy *vis-à-vis* privatization (Executive Decree 992.92), criticisms of ETOSS emphasize its tolerance, if not complicity, with AASA's repeated delays, failures and chicanery.[29] Extreme reliance of ETOSS on AASA as its main information source for regulatory purposes has also been widely criticized. Together with ETOSS funding through a 2.67% of AASA's bill which the company collects and deposits in an ETOSS banking account, these facts have been perceived by critics as prove of the regulatory agency's capture by the company it is supposed to regulate.

Political and Economic Limitations of Water Privatization: Lessons (to be) Learned From Argentina

The privatization of water has become one of the most politically explosive economic policy issues in developing and transition economies. While longstanding controversies like trade (tariff reduction) and financial (free capital in- and outflows) liberalization, deregulation of the economy (liberalization of prices and goods) still matter, it is the retirement of the state from economic activities, that is, privatization of state utilities such as water, gas and telecommunications which has mobilized determined opposition which in turn has undermined several LAC governments' popularity, or even political stability - Bolivia, Chile, Nicaragua, Ecuador, and of course, Argentina.

Argentina's experience demonstrates the economic and political dangers of privatizing potable water and sanitation systems in the developing world. By 2003, sensing that privatization had reached its discursive limits in the developing world, the World Bank started to refine the language if not the actual content of its privatization agenda (Kessides 2004).[30] By then, two major issues had started to bear down on the Bank's already poor reputation in Argentina as well as the rest of the developing world. The first is that the globalization of resistance to water and other public utility privatization schemes seemed to have reached a critical mass. The second was growing skepticism inside the Bank about its blind faith in privatization as a poverty reduction strategy. By mid to late 2003, a new language game had gained popularity among Bank strategists and policymakers. The term "privatization" was systemically purged from the Bank's strategic documents and policy directives in favor of more congenial language such as "public-private partnership" and "private sector participation." By mid 2003, the Bank's vice-president for private sector development, Michael Klein sought to distance the Bank from the growing public relations disaster associated with privatization in developing and transition economies and to clarify the Bank's

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[29] Alex Loftus and David A. MacDonald (2001) *Lessons from Argentina: The Buenos Aires Water Project.* Johannesburg: Municipal Services Project. Occasional Paper No. 2;

[30] Ioannis Kessides. *Reforming Infrastructure: Privatization, Regulation and Competition*. A World Bank Policy Research Report. 2004.

disposition: "There was never an actual policy that said you shall privatize everything that moves. But some people interpreted it that way" (*Wall Street Journal* 2003, July 21: C12). As the opposition to water privatization grew, the Bank was forced to admit that "privatization has been oversold and misunderstood" (Kessides 2004).

For now, it appears that the balance of power in the 'water wars' has titled in favor of democratic, pro-poor forces. There has recently been a noticeable retreat from unconditional support for water privatization schemes, at least among private investors if not the World Bank and IMF (Hall 2003; Kessides 2004; Kessler 2004).[31] Even the World Bank is reassessing its position. In 2004, the Bank released a report entitled *Reforming Infrastructure: Privatization, Regulation and Competition* in which it acknowledged that it "oversold" the benefits of privatization and ignored its distributional consequences. The official media release announcing the study characterized the Bank's faith in privatization as "excessive exuberance." A notable finding of the report was that public resentment and skepticism about water privatization schemes in LAC had become a major political obstacle – over 80% of the region's population was opposed to it. It would seem that the societies of LAC have lost faith, such faith as they ever had, in the economic validity of market forces to resolve their numerous social and economic crises.

More significantly, the Bank report expressed some doubts about the economic rational for further privatization and liberalization of water and sanitation services in LAC. Apparently, private investors turned out to be less than ideal partners because of their rent-seeking habits on behalf of shareholders and their rank opportunism and reluctance to commit to risky investments unless and until states and/or the Bank offered lucrative financial guarantees and in some cases simply abandoning water concessions when they determined that investments were not profitable enough. LAC cases?

Values such as economic competition and efficiency do not automatically enjoy the same degree of social legitimacy in developing and transition economies as they do in the developed economies of the Anglo-American world. It may be that they are not core social values simply because the alleviation of unemployment and poverty are of far greater concern. Ironically, the spectacular failures of the IMF, the World Bank and WTO's agenda of privatization and commodification of public services in Buenos Aires may yet create the political conditions for renew public confidence in the ability of the public sector to manage and control the economy and redress longstanding socio-economic problems. As Tim Kessler (2004: 18) puts it, the ongoing debate over control and ownership of water and other public resources may in fact end up "taking public sector reform seriously." To the extent that this claim seems credible, the belief in itself (whether true or not) may be capable of inspiring a stronger sense of both global and national community and greater citizens' commitment to participation in government and civic life at all scales. It may just be that when the dust has finally settled in the wake of the 'water wars,' a lasting political effect of failed water privatization projects in the developing world may well be to have raised public-spiritedness at all geographical scales.

[31] Tim Kessler, "Who's Taking Risks? How the World Bank Pushes Private Infrastructure – And Finds Resistance in Some Surprising Places." Citizens' Network on Essential Services. July 2004.